

ponder oils

1972

Annual Report to the Shareholders

PONDER OILS LTD.

**Incorporated under the Laws of the Province of Alberta
(Listed on the Toronto Stock Exchange)**

**HEAD OFFICE — 300 BENTALL BUILDING
CALGARY ALBERTA**

DIRECTORS AND OFFICERS

E. Nissen, Calgary, Alberta — President and Director
W. L. Falconer, Calgary, Alberta — Vice President and Director
M. P. Pick, Toronto, Ontario — Director
H. F. Gain, Calgary, Alberta — Secretary
H. L. Armitage, Calgary, Alberta — Director
D. E. Suttie, Calgary, Alberta — Director

REGISTRAR

**MONTREAL TRUST COMPANY
Calgary, Alberta — Toronto, Ontario**

AUDITORS

**PRICE WATERHOUSE & CO .
Chartered Accountants
Calgary, Alberta**

DIRECTOR'S REPORT

To The Shareholders:

Your directors present herewith a Consolidated Balance Sheet, Statement of Income and Retained Earnings, Statement of Source and Application of Funds for Ponder Oils Ltd., and its wholly-owned subsidiaries — Universal Printers Ltd. and Discovery Inc. — for the year ended December 31, 1972. The net income from operations after providing for taxes amounted to \$91,116.00 (3.4¢ per share) as compared to \$235,-823.00 (8.6¢ per share) in 1971.

Ponder Oils Ltd. maintained its 12.06 percent interest in the Coutts — Moulton "A" Unit in Southern Alberta. This unit has been producing at a satisfactory rate of over 100,000 barrels per year.

An agreement has been entered into whereby Ponder will retain an interest with no further expenditure on the petroleum exploration concession of 4,200,000 acres on the County of Lesotho located in Southern Africa.

Exploration for oil and gas in this concession will begin as soon as the Legislature of Lesotho completes legislation of its gas and oil laws.

In 1971 Discovery Inc. purchased a one sixteenth lease interest in a drilling block of 5,600 acres in the vicinity of Sale Ranch, Sprayberry — Dean producing area in Martin County, Texas. The drilling program consisted of 37 locations, 3 of which were drilled and put into production in the latter 1971. In 1972 16 producers were drilled and to date in 1973 we have completed 4 more. We anticipate drilling the remaining 14 wells by the end of 1973.

The Company owns an overriding royalty interest under a block of 4,080 acres in Eddy County, New Mexico, which offsets the Belco No. 3 James Unit, an important Pennsylvanian gas discovery. At the end of 1972 Discovery owned a working interest in 89 oil and gas wells in Martin and Reagan Counties and an over-riding royalty interest in 13 wells in Martin County.

Universal Printers Ltd. experienced a substantial drop in earning in 1972. Increased competition and rising costs, as well as the problems of expanding the facilities of the Paperback Division, were the main factors that led to the disappointing results.

The relocation and expansion of the Paperback facilities resulted in many production problems that adversely affected profits. However, we have now over 70,000 sq. ft. of plant space situated on 2 locations and have disposed of our surplus old buildings.

Both plants are now operating efficiently and management is optimistic about the future.

The Directors take pleasure in recording their appreciation for the efforts of the employees during the past year.

You are urged to attend the shareholders meeting on April 6th, 1973, but if unable to do so, please sign and return the enclosed proxy.

For the Board of Directors
E. Nissen
President

Calgary, Alberta
March 8, 1973

ASSETS

	December 31	
	1972	1971
CURRENT ASSETS:		
Cash	\$ 31,879	\$ 72,214
Accounts receivable —		
Trade	680,841	608,321
Other	42,278	31,084
Income taxes recoverable	107,926	—
Inventories, at the lower of cost and replacement cost	219,382	164,820
Marketable securities, at cost (market value —		
1971 — \$5,530)	—	9,876
Prepaid expenses	12,272	17,818
	<u>1,094,578</u>	<u>904,133</u>
GRANT RECEIVABLE FROM THE GOVERNMENT		
 OF CANADA	13,649	13,649
PROPERTY, PLANT AND EQUIPMENT, at cost (note 2):		
Land and buildings	242,334	476,620
Leases, well costs and equipment	771,397	705,040
Machinery and equipment	<u>2,221,763</u>	<u>2,027,199</u>
	3,235,494	3,208,859
Less: Accumulated depreciation and depletion	<u>1,547,755</u>	<u>1,691,978</u>
	1,687,739	1,516,881
OTHER ASSETS	66,297	51,417
EXCESS OF PURCHASE PRICE OVER BOOK VALUE		
 of subsidiary in 1960	849,981	849,981
	<u><u>\$3,712,244</u></u>	<u><u>\$3,336,061</u></u>

APPROVED BY THE BOARD:

H. L. ARMITAGE, Director

E. NISSEN, Director

AUDITORS' REPORT

To the Shareholders of Ponder Oils Ltd.:

We have examined the consolidated balance sheet of Ponder Oils Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

OILS LTD.

(Incorporated in Canada)
(Subsidiaries)

Balance Sheet

LIABILITIES

	December 31	
	1972	1971
CURRENT LIABILITIES:		
Cheques issued less bank balance	\$ 177,792	\$ —
Bank loans, secured (note 3)	314,682	166,054
Accounts payable and accrued	252,340	230,927
Income taxes payable	—	36,467
Sales taxes payable	15,294	9,726
Current portion of long-term debt (note 2)	66,622	67,067
	<u>826,730</u>	<u>510,241</u>
LONG-TERM DEBT (note 2):		
First Mortgage Bond, Series A	90,000	150,000
Mortgage	141,232	147,854
	<u>231,232</u>	<u>297,854</u>
DEFERRED INCOME TAXES (note 4)	98,600	63,400
CONTINGENT LIABILITIES AND COMMITMENTS (notes 7 and 8)		

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 5):		
Issued —		
8,334 6% cumulative redeemable preferred shares of \$100 each (purchased by a subsidiary company) (authorized — 15,000 shares)		
2,744,700 common shares of 50¢ each (authorized — 4,000,000 shares)	1,372,350	1,372,350
CONTRIBUTED SURPLUS	5,160	5,160
RETAINED EARNINGS	1,178,172	1,087,056
	<u>2,555,682</u>	<u>2,464,566</u>
	<u>\$3,712,244</u>	<u>\$3,336,061</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Calgary, Alberta

PONDER OILS LTD.

(and Wholly-Owned Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. Accounting principles:

The consolidated financial statements include the accounts of Ponder Oils Ltd. and its wholly-owned subsidiaries, Universal Printers Ltd. and Discovery, Inc. Both Ponder Oils Ltd. and Discovery, Inc., companies engaged in oil exploration, capitalize the costs of productive oil and gas properties and write off dry hole costs and lease rental payments as incurred. The costs of producing properties are written off by depletion charges on the unit of production method. Buildings, plant and equipment, including equipment on producing wells, are depreciated over their useful lives.

2. Long-term debt:

Long-term debt, of a subsidiary company, consists of the following:

	Current	Long-term
First Mortgage Bond, Series A, repayable in quarterly principal instalments of \$15,000 plus interest at 12 1/2 % — secured by mortgage on equipment and certain land and buildings	\$60,000	\$ 90,000
Mortgage, assumed on purchase of land and building during 1971, repayable in monthly instalments of \$1,385 including interest at 7%	<u>6,622</u>	141,232
	<u>\$66,622</u>	

3. Bank loans:

The bank loans are secured by a chattel mortgage covering equipment and by general assignments of book debts and oil reserves; in addition the Company has pledged with the bank the shares of a subsidiary and the preferred shares of the Company held by a subsidiary.

4. Income taxes:

Universal Printers Ltd. follows income tax allocation accounting whereby the income tax provision is based on reported income and the difference between the provision and the income taxes currently payable is deferred to future periods. In addition, Ponder Oils Ltd. and Discovery, Inc. have unclaimed drilling and exploration costs and accumulated losses of prior years aggregating \$440,000 which may be deducted from future taxable income.

5. Share capital:

As at December 31, 1972 options were outstanding entitling officers of the Company to purchase 100,000 common shares at a price of 60¢ per share on or before February 11, 1976. A further 26,000 common shares were reserved for issuance under employees' stock option plans.

Preferred shares are redeemable at \$105 per share plus cumulative dividends. As at December 31, 1972 dividends on preferred shares were in arrears \$200,016.

6. Remuneration of directors and officers

— \$136,340 (1971 - \$105,524).

7. Contingent liabilities:

- A subsidiary company is contingently liable for repayment of up to \$68,246 if it fails to meet the conditions attached to a grant received from the Government of Canada.
- Legal proceedings have been commenced against a subsidiary company relating to the quality of some publications.

8. Commitments:

- The Company has a contract for consulting services requiring payments of \$12,000 in each of the years 1972 to 1980.
- During the year a subsidiary company committed itself to a 9 year lease, with renewal options of up to an additional 25 years, for new plant facilities, requiring annual rental payments of \$39,500.

PONDER OILS LTD.

(and Wholly-Owned Subsidiaries)

Consolidated Statement of Income and Retained Earnings

Year ended December 31

	1972	1971
Gross sales	\$4,142,167	\$4,152,832
Costs and expenses:		
Cost of sales	3,404,968	3,152,610
Selling, general and administrative expenses	318,115	304,359
Interest (including interest on long-term debt of \$33,573; 1971 - \$32,950)	56,496	48,733
Dry holes and abandoned leases	—	19,442
Depreciation	152,677	156,889
Depletion	51,986	48,649
Other expenses (income), net	40,642	(12,926)
	<u>4,024,884</u>	<u>3,717,756</u>
	117,283	435,076
Provision for income taxes (note 4) (deferred — \$35,200, less current tax recoverable — \$9,033)	26,167	201,217
Net income for the year	91,116	233,859
Retained earnings, beginning of year	1,087,056	853,197
Retained earnings, end of year	<u>\$1,178,172</u>	<u>\$1,087,056</u>
Earnings per common share	<u>\$.034</u>	<u>\$.086</u>

PONDER OILS LTD.

(and Wholly-Owned Subsidiaries)

Consolidated Statement of Source and Application of Funds

	Year ended December 31	
	1972	1971
Source of funds:		
Operations —		
Net income for the year	\$ 91,116	\$233,859
Add expenses not requiring an outlay of funds —		
Depreciation, depletion and amortization	204,663	205,538
Dry holes and abandoned leases	—	19,442
Provision for deferred income taxes	35,200	(10,800)
	<u>330,979</u>	<u>448,039</u>
Proceeds from mortgage, less current portion	—	147,854
	<u>330,979</u>	<u>595,893</u>
Application of funds:		
Deposits on purchase of equipment	—	46,179
Purchases of property, plant and equipment, net	390,401	401,688
Discharge of mortgage	—	13,929
Mortgage principal payments	66,622	60,000
	<u>457,023</u>	<u>521,796</u>
Increase (decrease) in working capital	(126,044)	74,097
Working capital, beginning of year	393,892	319,795
Working capital, end of year	<u>\$267,848</u>	<u>\$393,892</u>

FOOTNOTES

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10

Page 10, line 10